

Message Text

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PAGE 01 STATE 236357

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ORIGIN NEA-10

INFO OCT-01 ISO-00 PM-04 DODE-00 NSC-05 SP-02 SS-15 MC-02

CIAE-00 INR-07 NSAE-00 L-03 TRSE-00 AID-05 EB-07

OMB-01 /062 R

DRAFTED BY NEA/ARN:DDEAN:PDW

APPROVED BY NEA/ARN:ARDAY

DOD/OSD/FSA - COL. PRADOS/

PM -DKEENE

COL. THOMPSON (SUBS)

T - MR. LEWIS (INFO)

S/S :FORTIZ

----- 118859

P 032103Z OCT 75

FM SECSTATE WASHDC

TO AMEMBASSY AMMAN PRIORITY

S E C R E T STATE 236357

E.O. 11652: GDS

TAGS: MASS, JO, US

SUBJECT: C-130 SALE

REF: (A) AMMAN 6545

(B) SECDEF 191700Z AUG 75

(C) ELSWORTH TO BIN SHAKIR LETTER, 4/28/75

FOR AMBASSADOR FROM DAY

1. BEFORE CONSIDERING FURTHER GOJ'S INQUIRY ABOUT A PRICE REDUCTION, BASED ON THEIR PERCEPTION THAT THEY ARE PAYING "NEAR-NEW" PRICES FOR USED C-130 AIRCRAFT, WE WANT TO BE SURE THAT BOTH EMBASSY AND DEPARTMENT ARE PROCEEDING ON BASIS OF SAME INFORMATION ABOUT PRICING.

2. DOD PRICING POLICY: DOD HAS CHANGED ITS PRICING POLICY

SECRET

SECRET

PAGE 02 STATE 236357

ON EQUIPMENT LIKE THESE C-130B'S WHICH ARE NO LONGER IN

PRODUCTION BUT WHICH HAVE BEEN DRAWN FROM INVENTORIES FOR SALE TO FOREIGN GOVERNMENTS. IN PAST, DOD FOLLOWED PRACTICE OF CITING (FOR ACCOUNTING PURPOSES) ORIGINAL "ACQUISITION COST" FOR ITEMS DELIVERED TO FOREIGN GOVERNMENTS UNDER GRANT AID. C-130'S DELIVERED PREVIOUSLY TO GOJ WERE CITED AT THIS ORIGINAL ACQUISITION COST, WHICH WAS CONSIDERABLY LOWER THAN WHAT IT WOULD COST TO REPLACE THESE AIRCRAFT TODAY.

3. PRESENT DOD POLICY IS TO CHARGE PRICE FALLING SOMEWHERE BETWEEN REPLACEMENT COST AND ORIGINAL ACQUISITION COST. THE NEW PRICING FORMULA, DESCRIBED IN SECDEF MESSAGE TO AMMAN 191700Z AUGUST 75, IS AS FOLLOWS:

(1) DETERMINE NORMAL EXPECTED USEFUL LIFE OF THE AIRCRAFT, (2) DETERMINE PERCENTAGE OF USEFUL LIFE REMAINING TO THE AIRCRAFT, (3) APPLY THAT PERCENTAGE TO THE REPLACEMENT COST OF AN AIRCRAFT OF SUBSTANTIALLY SAME CHARACTER (IN THIS CASE THE C-130H, WHICH IS ONLY MODEL STILL IN PRODUCTION), (4) ADD TEN PERCENT TO COVER COSTS INCURRED BY USAF IN REARRANGING ITS FORCES, CHANGES TO SPARES AND SUPPORT EQUIPMENT AND OTHER RELATED EXPENSES. THIS NEW PRICING POLICY WAS IN EFFECT AT THE TIME JORDANIANS REQUESTED MORE C-130'S DURING BIN SHAKIR'S APRIL VISIT TO WASHINGTON. IT SERVED AS BASIS FOR PRICES CONTAINED IN C-130 LOA AS WELL AS FOR CITING UNIT COSTS IN LOA OF REDEYE MISSILES.

4. C-130 PRICES IN THE LOA: AN APRIL 28 LETTER FROM AMB. ELLSWORTH (ISA) TO COS BIN SHAKIR SUMMARIZED THE AGREEMENTS AND UNDERTAKINGS STEMMING FROM THE APRIL TALKS. FOLLOWING PASSAGE OF THAT LETTER DEALT WITH C-130'S: "THE DEFENSE DEPARTMENT IS PREPARED TO RELEASE TWO C-130B AIRCRAFT IN AS-IS, WHERE-IS CONDITION FOR SALE TO JORDAN AT AN ESTIMATED UNIT COST OF \$2.5 TO \$3 MILLION, PLUS COSTS OF REHABILITATION AND SUPPORTING EQUIPMENT. WE ARE PREPARING AND WILL FORWARD TO YOU A LETTER OF OFFER COVERING THE TWO AIRCRAFT, REHABILITATION, AND SPARES."

5. FOLLOWING TABLE COMPARES UNIT AND PACKAGE PRICES FOR
SECRET

SECRET

PAGE 03 STATE 236357

A C-130B ACQUIRED BY GOJ IN 1973 (UNDER OLD PRICING SYSTEM) WITH SIMILAR PRICES FOR (A) ONE C-130B IN CURRENT LOA, AND (B) FOR A NEW PRODUCTION MODEL (C-130H):

(\$ MILLION US)

-- 1973 C-130 1 LOA C-130 1 NEW C-130H

BASIC

AIRCRAFT .7 2.97 7.6

REHAB .3 .44 --

SUPPORT .6 (NO AGE) 1.8 (SPARES & AGE) 2.1

TOTAL PKG 1.6 5.2 9.7

6. PRICE OF LOA PACKAGE IS MUCH LESS THAN NEW AIRCRAFT PACKAGE WITH COMPARABLE SUPPORT EQUIPMENT. IT IS MUCH GREATER THAN 1973 PACKAGE BECAUSE OF CHANGE IN PRICING POLICY AND BECAUSE 1973 SUPPORT PACKAGE CONTAINED NO AGE. IN CURRENT LOA, SUPPORT PACKAGE CONTAINS ITEMS REQUESTED BY JORDANIANS (ONE YEAR SUPPLY OF SPARE PARTS AND AGE). THE AGE AND THE TWO SPARE ENGINES ARE NEW AND AS SUCH ARE SOLD AT CURRENT PRODUCTION COST. LOA ALSO CONTAINS FERRYING AND ADMINISTRATIVE COSTS.

7. COMMENT: COSTS OF AIRCRAFT IN LOA DO NOT SEEM UNREASONABLY HIGH TO US, CONSIDERING EQUIPMENT INVOLVED AND COST FOR NEW COMPARABLE C-130H PACKAGE. PRICE OF THE BASIC AIRCRAFT IS STILL IN THE RANGE ESTIMATED TO BIN SHAKIR IN ELLSWORTH'S LETTER. ONE WAY TO REDUCE PRICE IN CURRENT LOA IS FOR GOJ TO ALTER COMPOSITION OF SUPPORT PACKAGE, BUT THEY MAY NOT WISH TO DO THIS.

8. WE WANTED YOU TO HAVE THIS INFORMATION AND WOULD APPRECIATE YOUR COMMENTS BEFORE WE PROCEED FURTHER. IN LIGHT OF THE ELLSWORTH LETTER WE ARE NOT CERTAIN HOW THE JORDANIANS DEVELOPED THE EXPECTATION THAT THE PRICE OF THE C-130 PACKAGE WOULD BE MUCH LOWER THAN IT IS IN THE LOA, OR WHAT PART OF THE PACKAGE THEY FEEL IS OVERPRICED.

SECRET

SECRET

PAGE 04 STATE 236357

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY SALES, TRANSPORT AIRCRAFT
Control Number: n/a
Copy: SINGLE
Draft Date: 03 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: KelleyW0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE236357
Document Source: CORE
Document Unique ID: 00
Drafter: DDEAN:PDW
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750344-0655
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751086/aaaaczgl.tel
Line Count: 155
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN NEA
Original Classification: SECRET
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: n/a
Reference: 75 AMMAN 6545
Review Action: RELEASED, APPROVED
Review Authority: KelleyW0
Review Comment: n/a
Review Content Flags:
Review Date: 13 AUG 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13 AUG 2003 by CunninFX>; APPROVED <08 DEC 2003 by KelleyW0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: C-130 SALE
TAGS: MASS, JO, US
To: AMMAN
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006